

# Los Angeles Times

## MORTGAGE MELTDOWN

### **Pain goes through the roof**

**Home foreclosures in California surge in the fourth quarter of 2007 to more than double the previous record.**

By Peter Y. Hong and Andrea Chang  
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Falling home values helped push a record number of Californians -- more than double the previous high -- into foreclosure and out of their homes in the last three months of 2007, data released Tuesday show.

Leandro Hernandez of Chino Hills is among thousands more who could be next. He tried to sell his house in 2006 to get out of a mortgage he couldn't afford but found no takers.

Faced with a house worth less than his loan balance, he's trying to cut a deal with his bank. But if the lender won't budge, Hernandez, 45, says he knows what he will tell them.

"Foreclose me," he said defiantly.

Hernandez knows that an eviction is a lengthy process. "I'll live in the house for free for 12 months, and I'll save my money and I'll move on."

Many have already been forced out or hit the road, helping to drive foreclosures up to 31,676 statewide in the final three months last year. That's more than double the record set in 1996 near the end of the last real estate downturn.

The all-time low was 637 foreclosures statewide in the second quarter of 2005, when home values were still booming.

The wave of foreclosures that began in late 2006 hit first and hardest in outlying suburbs such as the Antelope Valley and the Inland Empire.

In these areas, people who stretched to buy their first home often found themselves unable to make payments as their adjustable loans reset to higher rates, and falling home values made it impossible for them to refinance.

The latest figures, however, show foreclosures are spreading rapidly into areas that were virtually untouched a year ago. The five ZIP Codes with the sharpest rise were in Altadena,

Costa Mesa, Pico Rivera, Anaheim and Long Beach.

Woodland Hills broker Eli Tene specializes in short sales, deals in which a lender agrees to allow the sale of a house for less than what is owed on its mortgage so the seller can unload an unaffordable home. He said affluent homeowners were increasingly distressed.

"Those people overextended to get in to those neighborhoods. I have people in Calabasas, Encino, Woodland Hills, Agoura," he said.

Statewide, the median price for a home peaked last year in March at \$484,000, then fell to \$402,000 by year's end, according to DataQuick Information Services. Southern California median sales prices peaked in the spring and summer of last year at \$505,000 and ended the year at \$425,000.

When prices drop, some homeowners who owe more on their property than it is worth will often walk away, noted Leo Nordine, a Hermosa Beach broker who sells repossessed homes for banks. Nordine said his workload had doubled in the last year.

"When people see appreciation, they fight to hang on to their house," he said. "When they see it going backward, they're more likely to give up."

Economist Christopher Thornberg of Los Angeles consulting firm Beacon Economics said the growing number of foreclosures, along with rising unemployment, showed "it's clear California has entered a recession."

Rising foreclosures in such Orange County cities as Orange and Costa Mesa stem in part from the crash of sub-prime lenders specializing in loans to people with shaky credit, he said.

"Costa Mesa was sub-prime alley," he said of the lenders based in or near that Orange County city -- including ones that are no longer operating, such as Ameriquest Mortgage Co. and New Century Financial Corp. "The industry was born there and died there, so of course the local economy took a hit."

The foreclosure peak of 1996 occurred at the end of an economic recession, Thornberg noted. That makes the sharp rise in foreclosures more alarming, he says, because the recession is just beginning. "If you think the market's bad now, wait a year," he said.

In a recession, the risk of foreclosure rises because people face sudden hardships such as an unexpected job loss. That's what happened to Jacqueline and Oscar Arellano of Riverside.

The couple bought their six-bedroom house six years ago, before the real estate run-up, for about \$300,000. Last March, Oscar, a maintenance electrician, lost his job. Within weeks, the couple began falling behind on their monthly payments.

Then in October, the payments on their adjustable-rate loan rose to \$3,200, from \$2,200. Oscar is working again, but Jacqueline was laid off as a loan officer from Countrywide Financial Corp.

last fall. They recently received a notice of default -- the first step in the foreclosure process -- and are trying to sell their house.

"My home's been on the market for four months and I haven't had anybody interested in buying it. The market has just died," said Jacqueline, who now works as a bill collector.

As with foreclosures, notices of default are breaking records. Throughout California, default notices jumped to 81,550 in the fourth quarter, which DataQuick said was the highest since it began tracking default notices in 1992.

That total was more than double the 37,994 notices sent in the fourth quarter of 2006.

Many of the homeowners in default will be able to keep their homes, but the odds of them doing so are diminishing. An estimated 41% of those in default are able to avoid foreclosure by bringing their payments current, refinancing or selling their home to pay off their loan, DataQuick reported. A year ago, 71% of homeowners in default were able to recover.

In Southern California, Riverside County saw the biggest jump in default notices, up 119% from a year ago.

Orange County was a close second, with a 116% increase from the fourth quarter of 2006.

San Bernardino saw a 106% increase, San Diego was up 95%, and Ventura 89%.

Los Angeles County fared better than other Southern California counties, with an 83% increase in defaults.